

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Charter Township of Harrison	County Macomb
Audit Date December 31, 2004	Opinion Date May 13, 2005	Date Accountant Report Submitted To State: June 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 10 South Main Street, Suite 200	City Mount Clemens	State MI	ZIP 48043
Accountant Signature 			

Charter Township of Harrison, Michigan

**Financial Report
with Supplemental Information
December 31, 2004**

Charter Township of Harrison, Michigan

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Charter Township of Harrison, Michigan

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Independent Auditor's Report

To the Board of Trustees
Charter Township of Harrison, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Harrison, Michigan as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Harrison, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Harrison, Michigan as of December 31, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pension system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Charter Township of Harrison, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Harrison, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

May 13, 2005

Charter Township of Harrison, Michigan

Management's Discussion and Analysis

As management of the Charter Township of Harrison, Michigan (the "Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the Township's financial activities for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the Township's financial statements.

Financial Highlights

In this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2004:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$144,000 this year. The Township reacted to this reduction by allocating a portion of the Charter millage to the General Fund for operations which increased property tax revenue in the General Fund by approximately \$438,000. In addition, the Township did not fill positions vacated through attrition; these changes resulted in a fund balance increase of approximately \$550,000 in the General Fund.
- Total net assets related to the Township's governmental activities decreased by approximately \$1,270,000.

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information to provide greater detail of data presented in the basic financial statements.

Government-wide financial statements are designed to provide readers with a broad long-term overview of the Township's finances, in a manner similar to a private-sector business. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The statement of net assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Township is improving or deteriorating.

The statement of activities presents information showing how the Township's net assets changed during the year ended December 31, 2004. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Charter Township of Harrison, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: (a) governmental funds, (b) proprietary funds, and (c) fiduciary funds.

These fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. Such information is useful in evaluating the Township's near-term financing requirements.

- (a) **Governmental Funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.
- (b) **Proprietary Funds** - The Township maintains one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same function presented as business-type activities in the government-wide financial statements. The Township uses an enterprise fund to account for its sewer collection and water distribution. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.
- (c) **Fiduciary Funds** - The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements - The notes which follow the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Information concerning the Township's progress in funding its obligations to provide pension benefits to its employees is included in the notes to the financial statements.

Charter Township of Harrison, Michigan

Management's Discussion and Analysis (Continued)

The Township as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

The following table shows, in a condensed format, the net assets as of December 31, 2004 and 2003 (in thousands of dollars).

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$ 11,311	\$ 9,968	\$ 5,873	\$ 6,097	\$ 17,184	\$ 16,065
Noncurrent assets	4,751	3,772	21,992	22,068	26,743	25,840
Total assets	16,062	13,740	27,865	28,165	43,927	41,905
Liabilities						
Current liabilities	7,306	6,420	733	1,308	8,039	7,728
Long-term liabilities	2,435	2,358	-	-	2,435	2,358
Total liabilities	9,741	8,778	733	1,308	10,474	10,086
Net Assets						
Invested in capital assets - Net of related debt	3,071	1,940	21,992	22,068	25,063	24,008
Restricted	1,855	2,292	-	-	1,855	2,292
Unrestricted	1,395	730	5,140	4,789	6,535	5,519
Total net assets	<u>\$ 6,321</u>	<u>\$ 4,962</u>	<u>\$ 27,132</u>	<u>\$ 26,857</u>	<u>\$ 33,453</u>	<u>\$ 31,819</u>

The Township's assets are divided into two categories: business-type activities and governmental-type activities. The combined net assets of the Township increased 5 percent from a year ago - increasing from \$31.8 million to \$33.5 million. The business-type activities showed an increase of \$365,000 in net assets, which equates to 1.0 percent. This increase resulted from contributions of water and sewer lines by developers. Net assets of governmental activities increased 2.6 percent during fiscal 2004, which amounted to \$1.3 million. This increase is primarily a result of the construction of various capital assets and the sale of capital assets.

Charter Township of Harrison, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the years ended December 31, 2004 and 2003 (in thousands of dollars).

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	\$ 1,173	\$ 965	\$ 4,842	\$ 5,073	\$ 6,015	\$ 6,038
Operating grants and contributions	95	180	61	514	156	694
Capital grants and contributions	199	270	857	1,216	1,056	1,486
General revenue:						
Property taxes	5,280	4,652	-	-	5,280	4,652
State-shared revenue	2,273	2,069	-	-	2,273	2,069
Unrestricted investment earnings	151	125	58	59	209	184
Franchise fees	282	255	-	-	282	255
Miscellaneous	190	66	61	65	251	131
Gain on sale of capital assets	226	-	-	-	226	-
Transfers	118	-	(118)	-	-	-
Total revenue	9,987	8,582	5,761	6,927	15,748	15,509
Program Expenses						
General government	2,498	2,396	-	-	2,498	2,396
Public safety	5,846	6,178	-	-	5,846	6,178
Public works	25	42	-	-	25	42
Community and economic development	142	119	-	-	142	119
Recreation and culture	37	91	-	-	37	91
Interest on long-term debt	80	79	-	-	80	79
Water and sewer	-	-	5,485	5,410	5,485	5,410
Total program expenses	8,628	8,905	5,485	5,410	14,113	14,315
Change in Net Assets	\$ 1,359	\$ (323)	\$ 276	\$ 1,517	\$ 1,635	\$ 1,194

Governmental Activities

The Township's three largest revenue items are property taxes that total 53.3 percent of total revenue; state-shared revenue at 23.0 percent; and charges for services, including Building Department fees and business permits and fees, at 11.9 percent. These three revenue sources total 88.2 percent of the total revenue. This past fiscal year, our revenue increased as a result of increases to each of these three sources. The Township's total governmental expenditures were approximately \$8.6 million. In 2004, the Township benefited from new construction and growth.

Charter Township of Harrison, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's revenue decreased by approximately \$1.2 million. This decrease is a result of a decrease in the amount of water and sewer lines donated by developers and the completion of the Clean Michigan Initiative grant.

The Township's business-type activities consist of the Water and Sewer Fund. We operate a water distribution system providing water to customers from the Detroit and Mount Clemens water supplies. We also maintain a sewer collection system, which is connected to the Detroit Sewage disposal network. The Township increased water rates in November 2004. In addition, the department expanded the sewer collection system to provide service to areas of the Township that were previously on private systems. This includes areas such as sections of South River Road, Erie, Clintonshore, Clintonview, Waterford, Hearne, Hazel, Sylvia, and Duluth streets.

The Township's Funds

Our analysis of the Township's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2004 include the General Fund, the Fire Fund, and the Police Fund.

The General Fund accounts for most of the Township's governmental services. The most significant are assessing and treasury departments, which incurred expenses of approximately \$415,000 and \$346,000, respectively, in 2004. Fire and police services are supported primarily through special millages that are recorded in the respective funds. The Fire and Police Funds recorded the receipt of approximately \$4.1 million and \$715,000, respectively, from these millages in the current year.

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was to decrease the state-shared revenue budget by approximately \$125,000. There were decreases across many of the expenditure categories, the most significant being the decrease in the assessing department.

Capital Asset and Debt Administration

At the end of 2004, the Township had \$26.3 million invested in a broad range of capital assets, including buildings, fire equipment, and water and sewer lines. This includes approximately \$1,890,000 for the construction of a new fire station that was nearly complete at the end of the fiscal year and will be operational in 2005.

Charter Township of Harrison, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Because of the impact of Proposal A and the Headlee Amendment, the Township must continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

The Township's budget for 2005 will be funded by a citizen approved millage rate. With a new Board of Trustees running the Township, many changes are expected in the upcoming year to reduce costs and streamline operations.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Charter Township of Harrison, Michigan

Statement of Net Assets December 31, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 2)	\$ 4,723,989	\$ 4,496,988	\$ 9,220,977	\$ 11,921
Receivables:				
Taxes	1,128,132	-	1,128,132	-
Customers - Net of allowance of \$109,112	94,822	1,316,775	1,411,597	-
Special assessments	4,096,138	-	4,096,138	-
Accrued interest	5,959	9,115	15,074	-
Other	863,393	60,959	924,352	-
Internal balances	157,808	(157,808)	-	-
Inventories	-	132,841	132,841	-
Prepaid expenses and other assets	240,840	13,924	254,764	-
Capital assets (Note 4):				
Nondepreciable	2,895,214	716,475	3,611,689	-
Depreciable (Net)	1,856,254	21,275,602	23,131,856	-
Total assets	16,062,549	27,864,871	43,927,420	11,921
Liabilities				
Accounts payable	511,773	415,031	926,804	-
Retainage payable	146,051	56,469	202,520	-
Accrued and other liabilities	634,434	261,355	895,789	-
Deferred revenue (Note 3)	5,684,771	-	5,684,771	-
Noncurrent liabilities (Note 6):				
Due within one year	329,177	-	329,177	-
Due in more than one year	2,434,800	-	2,434,800	-
Total liabilities	9,741,006	732,855	10,473,861	-
Net Assets				
Invested in capital assets - Net of related debt	3,071,468	21,992,077	25,063,545	-
Restricted:				
Debt service	636,841	-	636,841	-
Capital projects	781,847	-	781,847	-
Public safety	419,556	-	419,556	-
Community development	16,726	-	16,726	-
Unrestricted	1,395,105	5,139,939	6,535,044	11,921
Total net assets	\$ 6,321,543	\$ 27,132,016	\$ 33,453,559	\$ 11,921

Charter Township of Harrison, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
Expenses		Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 2,498,173	\$ 436,172	\$ -	\$ 198,356
Public safety	5,845,512	736,334	5,164	-
Public works	26,186	-	-	656
Community and economic development	141,642	-	90,094	-
Recreation and culture	36,543	-	-	-
Interest on long-term debt	80,212	-	-	-
Total governmental activities	8,628,268	1,172,506	95,258	199,012
Business-type activity - Water and sewer	5,485,461	4,842,710	60,959	856,571
Total primary government	<u>\$ 14,113,729</u>	<u>\$ 6,015,216</u>	<u>\$ 156,217</u>	<u>\$ 1,055,583</u>
Component unit - Economic Development Corporation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Gain on sale of capital assets				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (1,863,645)	\$ -	\$ (1,863,645)	\$ -
(5,104,014)	-	(5,104,014)	-
(25,530)	-	(25,530)	-
(51,548)	-	(51,548)	-
(36,543)	-	(36,543)	-
(80,212)	-	(80,212)	-
(7,161,492)	-	(7,161,492)	-
-	274,779	274,779	-
(7,161,492)	274,779	(6,886,713)	-
-	-	-	-
5,279,966	-	5,279,966	-
2,273,219	-	2,273,219	-
151,379	57,595	208,974	75
281,839	-	281,839	-
226,438	-	226,438	-
190,207	61,324	251,531	-
118,000	(118,000)	-	-
8,521,048	919	8,521,967	75
1,359,556	275,698	1,635,254	75
4,961,987	26,856,318	31,818,305	11,846
<u>\$ 6,321,543</u>	<u>\$ 27,132,016</u>	<u>\$ 33,453,559</u>	<u>\$ 11,921</u>

Charter Township of Harrison, Michigan

Governmental Funds Balance Sheet December 31, 2004

	Major Special Revenue Funds			Major Capital Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
	General	Fire Fund	Police Fund	Building and Site		
Assets						
Cash and investments (Note 2)	\$ 1,865,642	\$ 1,603,936	\$ 147,254	\$ 78	\$ 1,107,079	\$ 4,723,989
Receivables:						
Taxes	517,087	-	611,045	-	-	1,128,132
Customers - Net of allowance of \$109,112	-	94,822	-	-	-	94,822
Special assessments	-	3,573,354	-	-	522,784	4,096,138
Accrued interest	3,095	1,662	-	-	1,202	5,959
Other	21,495	-	-	-	-	21,495
Due from other funds (Note 5)	116,321	250,378	-	500,000	-	866,699
Due from other governmental units	841,898	-	-	-	-	841,898
Prepaid expenses and other assets	38,563	51,737	-	-	150,540	240,840
Total assets	\$ 3,404,101	\$ 5,575,889	\$ 758,299	\$ 500,078	\$ 1,781,605	\$ 12,019,972
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 69,442	\$ 15,412	\$ -	\$ 323,232	\$ 103,687	\$ 511,773
Retainage payable	-	-	-	146,051	-	146,051
Accrued and other liabilities	314,760	265,542	-	-	23,803	604,105
Due to other funds (Note 5)	92,182	502,634	-	22,036	92,039	708,891
Deferred revenue (Note 3)	896,425	4,382,016	749,028	-	459,276	6,486,745
Total liabilities	1,372,809	5,165,604	749,028	491,319	678,805	8,457,565
Fund Balances						
Reserved for prepaid expenditures	38,563	51,737	-	-	79,397	169,697
Unreserved - Undesignated	1,992,729	358,548	9,271	8,759	-	2,369,307
Unreserved - Reported in nonmajor funds:						
Special Revenue Funds	-	-	-	-	111,840	111,840
Debt Service Fund	-	-	-	-	667,170	667,170
Capital Projects Fund	-	-	-	-	244,393	244,393
Total fund balances	2,031,292	410,285	9,271	8,759	1,102,800	3,562,407
Total liabilities and fund balances	\$ 3,404,101	\$ 5,575,889	\$ 758,299	\$ 500,078	\$ 1,781,605	\$ 12,019,972

Charter Township of Harrison, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets December 31, 2004

Total Fund Balances for Governmental Funds	\$ 3,562,407
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	4,751,468
Revenue related to receivables is reported in the statement of net assets at the time it is earned without regard to timeliness of remittance	801,974
Long-term liabilities are not due and payable in the current period and are not recorded in the funds	(2,763,977)
Accrued interest payable is not reported in the funds	<u>(30,329)</u>
Total Net Assets of Governmental Activities	<u>\$ 6,321,543</u>

Charter Township of Harrison, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2004

	Major Special Revenue Funds			Major Capital Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
	General	Fire Fund	Police Fund	Building and Site		
Revenue						
Property taxes	\$ 503,049	\$ 4,113,710	\$ 715,394	\$ -	\$ -	\$ 5,332,153
Licenses and permits	292,997	-	-	-	558,450	851,447
Federal grants	-	-	-	-	36,925	36,925
State-shared revenues	1,927,396	-	-	-	-	1,927,396
Charges for services	-	319,727	-	-	-	319,727
Special assessments	-	-	-	-	146,169	146,169
Interest	77,598	37,463	3,997	831	31,490	151,379
Other	407,494	44,226	-	-	56,818	508,538
Total revenue	3,208,534	4,515,126	719,391	831	829,852	9,273,734
Expenditures						
Current:						
General government	2,178,549	-	-	-	-	2,178,549
Public safety	236,585	4,253,787	714,159	-	696,171	5,900,702
Public works	66,717	-	-	1,090,855	168,752	1,326,324
Community development	-	-	-	-	141,642	141,642
Recreation and culture	17,182	-	-	-	-	17,182
Employee benefits and insurance	8,800	-	-	-	-	8,800
Other	63,648	-	-	-	1,175	64,823
Debt service:						
Principal	-	-	-	-	152,000	152,000
Interest	-	-	-	-	80,066	80,066
Total expenditures	2,571,481	4,253,787	714,159	1,090,855	1,239,806	9,870,088
Excess of Revenue Over (Under) Expenditures	637,053	261,339	5,232	(1,090,024)	(409,954)	(596,354)
Other Financing Sources (Uses)						
Proceeds from long-term debt	-	-	-	-	225,000	225,000
Proceeds from sale of capital assets	93,923	255,188	-	-	-	349,111
Transfers in	121,170	111,533	-	933,500	362,730	1,528,933
Transfers out	(212,285)	(1,011,582)	-	(72,363)	(114,703)	(1,410,933)
Total other financing sources (uses)	2,808	(644,861)	-	861,137	473,027	692,111
Net Change in Fund Balances	639,861	(383,522)	5,232	(228,887)	63,073	95,757
Fund Balances - Beginning of year	1,391,431	793,807	4,039	237,646	1,039,727	3,466,650
Fund Balances - End of year	<u>\$ 2,031,292</u>	<u>\$ 410,285</u>	<u>\$ 9,271</u>	<u>\$ 8,759</u>	<u>\$ 1,102,800</u>	<u>\$ 3,562,407</u>

Charter Township of Harrison, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ 95,757
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	1,346,608
Depreciation is recorded as an expense in the statement of activities but not in the governmental funds	(244,087)
In the statement of activities, only the gain/loss on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds of the assets sold	(122,673)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	78,829
Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	342,698
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	152,000
Change in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(64,430)
Accrued interest is recorded on debt when incurred in the statement of activities	(146)
Bond proceeds are not reported as financing sources on the statement of activities	<u>(225,000)</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,359,556</u>

Charter Township of Harrison, Michigan

Proprietary Fund - Enterprise Fund Statement of Net Assets December 31, 2004

	Water and Sewer Fund
Assets	
Current assets - Cash and cash equivalents (Note 2)	\$ 4,496,988
Receivables:	
Customers	1,316,775
Accrued interest	9,115
Due from State	60,959
Due from other funds (Note 5)	92,192
Inventories	132,841
Prepaid expenses and other assets	13,924
Total current assets	6,122,794
Noncurrent assets - Capital assets (Note 4):	
Nondepreciable	716,475
Depreciable (Net)	21,275,602
Total assets	28,114,871
Liabilities	
Accounts payable	415,031
Retainage payable	56,469
Accrued and other liabilities	261,355
Due to other funds (Note 5)	250,000
Total liabilities	982,855
Net Assets	
Invested in capital assets	21,992,077
Unrestricted	5,139,939
Total net assets	<u><u>\$ 27,132,016</u></u>

Charter Township of Harrison, Michigan

Proprietary Fund - Enterprise Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2004

	Water and Sewer Fund
Operating Revenue	
Charges for services	\$ 4,631,665
Tap fees	<u>211,045</u>
Total operating revenue	4,842,710
Operating Expenses	
Cost of water produced/purchased	1,035,079
Cost of sewage treatment	1,584,181
Operation and maintenance	546,214
Personnel services	1,332,735
Depreciation	<u>987,252</u>
Total operating expenses	<u>5,485,461</u>
Operating Loss	(642,751)
Nonoperating Revenue	
Investment income	57,595
State grants	60,959
Other	<u>61,324</u>
Total nonoperating revenue	<u>179,878</u>
Loss - Before transfers and contributions	(462,873)
Transfers to Other Funds	(118,000)
Capital Contributions	<u>856,571</u>
Change in Net Assets	275,698
Net Assets - January 1, 2004	<u>26,856,318</u>
Net Assets - December 31, 2004	<u><u>\$ 27,132,016</u></u>

Charter Township of Harrison, Michigan

Proprietary Fund - Enterprise Fund Statement of Cash Flows Year Ended December 31, 2004

	Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 4,474,839
Payments to suppliers	(3,432,646)
Payments to employees	(1,313,476)
Net cash used in operating activities	(271,283)
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(288,618)
Receipt of grants for capital purposes	353,649
Other nonoperating revenue	61,324
Capital contributions from connection fees	317,449
Transfer to other funds	(118,000)
Net cash provided by capital and related financing activities	325,804
Cash Flows from Investing Activities - Interest received on investments	52,683
Net Increase in Cash and Cash Equivalents	107,204
Cash and Cash Equivalents - Beginning of year	4,389,784
Cash and Cash Equivalents - End of year	<u><u>\$ 4,496,988</u></u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (642,751)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	987,252
Changes in assets and liabilities:	
Receivables	(367,871)
Prepaid and other assets	3,718
Accounts payable	(428,698)
Due from other funds	157,808
Accrued and other liabilities	19,259
Net cash used in operating activities	<u><u>\$ (271,283)</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended December 31, 2004, the Water and Sewer Fund received \$539,125 of lines donated by developers.

Charter Township of Harrison, Michigan

Fiduciary Funds Statement of Net Assets December 31, 2004

	Pension and Other Employee Benefits Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 2)	\$ 803,152	\$ 2,079,634
Investments (Note 2):		
U.S. government securities	1,760,483	-
Corporate bonds and other securities	4,741,224	-
Corporate and foreign stocks	6,140,279	-
Unit investment trusts	999,074	-
Mutual funds	11,051,363	-
Receivables:		
Accrued interest	54,561	2,506
Employer contributions	528,470	-
Total assets	26,078,606	<u><u>\$ 2,082,140</u></u>
Liabilities		
Due to other governmental units	-	\$ 747,417
Cash bonds and deposits	-	1,334,723
Total liabilities	-	<u><u>\$ 2,082,140</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 26,078,606</u></u>	

Charter Township of Harrison, Michigan

Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Year Ended December 31, 2004

Additions

Investment income:

Interest and dividends	\$ 866,622
Net increase in fair value of investments	1,281,731
Less investment expenses	<u>(77,337)</u>

Net investment income 2,071,016

Contributions:

Employer	887,502
Employee	<u>194,401</u>

Total contributions 1,081,903

Total additions 3,152,919

Deductions - Benefit payments 1,423,061

Net Increase in Net Assets Held in Trust 1,729,858

Net Assets Held in Trust for Pension and Other Employee Benefits

Beginning of year 24,348,748

End of year \$ 26,078,606

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note I - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Harrison, Michigan (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The following is a summary of the significant accounting policies:

Reporting Entity

The Township is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

Blended Component Units - The following component units are reported as if they were parts of the primary government in the financial statements:

- a. The Township Building Authority is governed by a board that is appointed by the board of trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the Township's public buildings. The Building Authority was inactive during 2004 and has no assets, liabilities, or general long-term debt.
- b. The Firemen's Pension Fund and the Employees' Retirement System are governed by five-member pension boards that include three individuals chosen by the board of trustees. The entities are reported as if they were part of the primary government because of the fiduciary responsibility that the Township retains relative to the operations of the entities.
- c. The Retiree Healthcare Fund is governed by a five-member investment committee that includes the Township treasurer, two members of the Employee Retirement System pension board, and two members of the Fireman's Pension Fund pension board. The entity is reported as if it were part of the primary government because of the fiduciary responsibility that the Township retains relative to the operations of the entity.

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Unit - The Economic Development Corporation is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the Township. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the Township so as to provide needed services and facilities of such enterprises to the residents of the Township. The Corporation's governing body, which consists of 11 individuals, is selected by the board of trustees.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Fund - The Fire Fund accounts for fire safety and protection services/activities within the Township. Funding is provided primarily through a local property tax levy and a user charge for ambulance services.

Police Fund - The Police Fund accounts for public safety and protection services/activities within the Township. Funding is provided primarily through a local tax revenue.

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Building and Site Fund - The Building and Site Fund accounts for the construction of activities for new Township facilities and is funded primarily through the issuance of long-term debt.

The Township reports the following major Enterprise Fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distributions system and sewage and storm water collection system. Funding is provided primarily through user charges.

Additionally, the Township reports the following fund types:

Pension and Other Employee Benefits Trust Funds - The Pension and Other Employee Benefits Trust Funds account for the activities of the Fireman's Pension, the Employees' Retirement System, and the Retiree Healthcare Fund, which accumulate resources for pension and other postemployment benefit payments to qualified employees.

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue during the year ending December 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the Township totaled \$802.8 million, on which taxes levied consisted of 3.9352 mills for operating purposes, 2.5851 mills for fire protection services, and .0970 mills for debt service. This resulted in \$3,159,000 for operating, \$2,075,000 for fire protection services, and \$77,900 for debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Expenses - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., storm drains), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Storm drains	50 years
Water and sewer lines and mains	37 to 50 years
Buildings and improvements	10 to 45 years
Machinery and equipment	5 to 20 years

Compensated Absences - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Accumulated sick leave is recorded as a current liability in the government-wide and fund-based statements since the Township's policy is to pay half of any amounts accumulated at December 31 in the following year. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated five banks in Macomb County for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all of the vehicles permitted by State statutory authority as listed above.

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 2 - Deposits and Investments (Continued)

The Charter Township of Harrison, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 4,723,989	\$ 4,496,988	\$ 2,882,786	\$ 12,103,763	\$ 11,921
Investments	-	-	24,692,423	24,692,423	-
Total	<u>\$ 4,723,989</u>	<u>\$ 4,496,988</u>	<u>\$ 27,575,209</u>	<u>\$ 36,796,186</u>	<u>\$ 11,921</u>

The breakdown between deposits and investments for the Township is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 7,754,301	\$ 11,921
Investments in securities, mutual funds, and similar vehicles	29,040,785	-
Petty cash or cash on hand	<u>1,100</u>	<u>-</u>
Total	<u>\$ 36,796,186</u>	<u>\$ 11,921</u>

Deposits

The bank balance of the Township's deposits is \$7,918,347, of which \$559,472 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of \$11,921, all of which was covered by federal depository insurance.

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 2 - Deposits and Investments (Continued)

Investments

The Firemen's Pension, Employee Retirement System, and Retiree Healthcare Trusts are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the Township or its agent in the Township's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Township's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

At year end, the Township's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
U.S. government securities	\$ -	\$ -	\$ 1,760,483	\$ 1,760,483
Corporate bonds and notes	-	-	4,741,225	4,741,225
Common stock	-	-	6,140,278	6,140,278
Unit investment trusts	-	-	999,074	999,074
Subtotal	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,641,060</u>	13,641,060
Investments not subject to categorization:				
Bank investment pool funds				4,348,361
Mutual funds				<u>11,051,364</u>
Total primary government				<u>\$ 29,040,785</u>

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 2 - Deposits and Investments (Continued)

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

Included in the Township's fiduciary fund investments at December 31, 2004 are approximately \$1,059,000 of securities issued by the Governmental National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC). The GNMA investments are backed by the full faith and credit of the U.S. government, whereas the FNMA and FHLMC investments are backed only by the applicable government agency. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.

Note 3 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 459,276	\$ -
State-shared revenue	342,698	-
Property taxes levied December 1, 2004 that are budgeted and available for operations in 2005	-	5,684,771
Total	<u>\$ 801,974</u>	<u>\$ 5,684,771</u>

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 4 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2004	Additions	Disposals and Adjustments	Balance December 31, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 640,492	\$ -	\$ 60,334	\$ 580,158
Construction in progress	<u>1,050,289</u>	<u>1,264,767</u>	<u>-</u>	<u>2,315,056</u>
Subtotal	1,690,781	1,264,767	60,334	2,895,214
Capital assets being depreciated:				
Buildings and improvements	1,411,342	10,411	137,910	1,283,843
Machinery and equipment	2,825,373	71,430	111,161	2,785,642
Infrastructure - Storm drains	<u>691,193</u>	<u>-</u>	<u>-</u>	<u>691,193</u>
Subtotal	4,927,908	81,841	249,071	4,760,678
Accumulated depreciation:				
Buildings and improvements	582,962	44,928	81,324	546,566
Machinery and equipment	2,137,781	185,335	105,408	2,217,708
Infrastructure - Storm drains	<u>126,326</u>	<u>13,824</u>	<u>-</u>	<u>140,150</u>
Subtotal	<u>2,847,069</u>	<u>244,087</u>	<u>186,732</u>	<u>2,904,424</u>
Net capital assets being depreciated	<u>2,080,839</u>	<u>(162,246)</u>	<u>62,339</u>	<u>1,856,254</u>
Net capital assets	<u>\$ 3,771,620</u>	<u>\$ 1,102,521</u>	<u>\$ 122,673</u>	<u>\$ 4,751,468</u>

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 4 - Capital Assets (Continued)

	Balance January 1, 2004	Additions	Disposals and Adjustments	Balance December 31, 2004
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 504,292	\$ 200,000	\$ -	\$ 704,292
Construction in progress	3,145,800	64,908	(3,198,525)	12,183
Subtotal	3,650,092	264,908	(3,198,525)	716,475
Capital assets being depreciated:				
Buildings and improvements	641,859	50,000	-	691,859
Machinery and equipment	2,280,593	50,015	-	2,330,608
Water and sewer lines and mains	30,563,503	546,703	3,198,525	34,308,731
Subtotal	33,485,955	646,718	3,198,525	37,331,198
Accumulated depreciation:				
Buildings and improvements	269,058	16,269	-	285,327
Machinery and equipment	1,434,274	247,993	-	1,682,267
Water and sewer lines and mains	13,365,012	722,990	-	14,088,002
Subtotal	15,068,344	987,252	-	16,055,596
Net capital assets being depreciated	18,417,611	(340,534)	3,198,525	21,275,602
Net capital assets	\$ 22,067,703	\$ (75,626)	\$ -	\$ 21,992,077

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 69,709
Public safety	154,977
Recreation and culture	19,401
 Total governmental activities	 \$ 244,087

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Fire Fund	\$ 2,619 (1)
General Fund	Other governmental funds	113,703 (1)
Fire Fund	Other governmental funds	367 (1)
Fire Fund	Water and Sewer Fund	250,000 (2)
Water and Sewer Fund	General Fund	92,192 (1)
Other governmental funds	Fire Fund	500,010 (1)
Total		<u>\$ 958,891</u>

- (1) These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.
- (2) This balance resulted from the sale of capital assets by the Fire Fund to the Water and Sewer Fund.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Other governmental funds	\$ 212,285 (1)
Fire Fund	Other governmental funds	1,011,582 (2)
Water and Sewer Fund	General Fund	118,000 (1)
Other governmental funds	General Fund	3,170 (1)
Other governmental funds	Fire Fund	111,533 (1)
Other governmental funds	Other governmental funds	72,363 (1)
Total		<u>\$ 1,528,933</u>

- (1) Transfer of unrestricted resources to finance programs
- (2) Transfer for construction of capital improvements and of debt service levy for the payment of Unlimited Tax General Obligation Bonds

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 6 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds -							
2002 Fire Station Unlimited Tax General Obligation Bonds	4.50% - 5.20%	\$0 - \$100,000					
Amount of issue: \$995,000							
Maturing through March 1, 2017			\$ 995,000	\$ -	\$ (25,000)	\$ 970,000	\$ 50,000
Special assessment bonds:							
1995 Paving District No. 196 Limited Tax Bonds	4.00% - 5.30%	\$4,000 - \$8,000					
Amount of issue: \$70,000							
Maturing through February 1, 2004			7,000	-	(7,000)	-	-
1998 Paving District No. 199, 200, and 201 Limited Tax Bonds	4.30% - 6.00%	\$35,000 - \$55,000					
Amount of issue: \$515,000							
Maturing through March 1, 2008			265,000	-	(55,000)	210,000	50,000
2001 Paving District No. 202 Limited Tax Bonds	3.80% - 4.70%	\$10,000 - \$25,000					
Amount of issue: \$205,000							
Maturing through: February 1, 2011			170,000	-	(20,000)	150,000	25,000
2002 Paving District No. 203 Limited Tax Bonds	3.75% - 6.75%	\$25,000 - \$45,000					
Amount of issue: \$420,000							
Maturing through February 1, 2012			395,000	-	(45,000)	350,000	45,000
2004 Dredging District No. 204 Limited Tax Bonds	0.03% 6.20%	\$15,000 - \$25,000					
Amount of issue: \$225,000							
Maturing through February 1, 2014			-	225,000	-	225,000	15,000
Other long-term obligations - Compensated absences			794,547	64,430	-	858,977	144,177
Total governmental activities			\$ 2,626,547	\$ 289,430	\$ (152,000)	\$ 2,763,977	\$ 329,177

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2005	\$ 185,000	\$ 80,731	\$ 265,731
2006	195,000	72,987	267,987
2007	195,000	64,516	259,516
2008	190,000	56,414	246,414
2009	165,000	48,917	213,917
2010-2014	675,000	146,671	821,671
2015-2019	300,000	23,275	323,275
Total	<u>\$ 1,905,000</u>	<u>\$ 493,511</u>	<u>\$ 2,398,511</u>

Note 7 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits, participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and the Michigan Townships Participating Plan for general liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Charter Township of Harrison, Michigan

**Notes to Financial Statements
December 31, 2004**

Note 8 - Defined Benefit Pension Plan

Plan Description

Employees' Retirement System - The Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the Charter Township of Harrison Employees' Retirement System Pension Board. This plan covers substantially all full-time employees (except firemen) of the Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 38151 L'Anse Creuse Road, Harrison Township, MI 48045.

Firemen's Pension Fund - The Firemen's Pension Fund is a single-employer defined benefit pension plan that is administered by the Charter Township of Harrison Firemen's Pension Board. This plan covers substantially all full-time employees of the Charter Township of Harrison fire department. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 38151 L'Anse Creuse Road, Harrison Township, MI 48045.

Funding Policy

Employees' Retirement System - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires a contribution from the employees of 5 percent of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is 15.90 percent of covered payroll.

Firemen's Pension Fund - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires a contribution from the employees of 5 percent of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is 21.59 percent of covered payroll.

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 8 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost

Employees' Retirement System - For the year ended December 31, 2004, the Township's annual pension cost of \$330,751 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions include (a) a 7 percent investment rate of return, (b) projected salary increases of 5 percent to 8.8 percent per year, and (c) cost of living adjustments for supervisory employees of 10 percent after 5 and 10 years. Both (a) and (b) include an inflation component of 5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 28 years.

Firemen's Pension Fund - For the year ended December 31, 2004, the Township's annual pension cost of \$410,281 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions include (a) a 7.5 percent investment rate of return and (b) projected salary increases of 5.5 percent to 9.3 percent per year. Both (a) and (b) include an inflation component of 5.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 30 years.

Reserves

Employees' Retirement System - As of December 31, 2004, the plan's required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 1,176,734
Reserve for employer's contributions	2,050,243
Reserve for retired benefit payments	8,414,329

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 8 - Defined Benefit Pension Plan (Continued)

Firemen's Pension Fund - As of December 31, 2004, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 1,026,440
Reserve for employer's contributions	6,419,542
Reserve for retired benefit payments	6,844,848

Three-year Trend Information

	Fiscal Year Ended December 31		
	2002	2003	2004
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 437,514	\$ 312,506	\$ 330,751
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Fire Retirement System:			
Annual pension costs (APC)	\$ 429,662	\$ 437,191	\$ 410,281
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 9 - Postemployment Benefits

The Township provides health care and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 54 retirees are eligible. The Township includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participants who retired prior to January 4, 1996. Contributions for participants who retire after January 3, 1996 will be funded by the Township based on years of service as follows: 10 years and under - 25 percent; 11 years through 15 years - 50 percent; over 15 years - 100 percent. The Township purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care and life insurance benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$607,000.

Charter Township of Harrison, Michigan

Notes to Financial Statements December 31, 2004

Note 9 - Postemployment Benefits (Continued)

Upcoming Reporting Change - The Government Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

Required Supplemental Information

Charter Township of Harrison, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 497,892	\$ 500,927	\$ 503,049	\$ 2,122
Licenses and permits	263,800	268,720	292,997	24,277
State sources	2,068,544	1,943,828	1,927,396	(16,432)
Interest income	59,794	25,194	77,598	52,404
Other	408,835	436,164	501,417	65,253
Transfers from other funds	-	-	121,170	121,170
Total revenue	3,298,865	3,174,833	3,423,627	248,794
Expenditures				
General government:				
Administration	302,740	278,684	231,980	46,704
Township board	40,601	38,401	39,661	(1,260)
Supervisor	129,087	129,962	120,930	9,032
Elections	176,252	148,042	144,579	3,463
Assessor	531,884	429,371	415,386	13,985
Attorney	150,000	140,100	122,794	17,306
Clerk	200,109	191,909	187,677	4,232
Accounting	317,177	277,502	268,746	8,756
Cable television committee	10,970	26,090	7,470	18,620
Zoning Board of Appeals	72,794	69,687	66,726	2,961
Treasurer	384,709	352,604	345,547	7,057
Data processing	28,000	5,250	5,480	(230)
Grounds, hall, and equipment	266,480	256,690	221,573	35,117
Building inspection	148,454	158,748	152,750	5,998
Public safety - Planning	87,042	88,129	83,835	4,294
Public works:				
Engineering	25,000	26,000	29,355	(3,355)
Highways and streets	43,000	36,500	19,721	16,779
Drainage	29,000	29,000	17,641	11,359
Recreation and culture:				
Parks	-	23,325	17,142	6,183
Beautification Commission	395	395	40	355
Employee benefits and insurance:				
Property insurance	34,000	41,650	41,076	574
Workers' compensation insurance	9,000	9,000	8,800	200
Other expenses	60,500	77,936	22,572	55,364
Transfers to other funds	251,671	339,858	212,285	127,573
Total expenditures	3,298,865	3,174,833	2,783,766	391,067
Net Change in Fund Balance	-	-	639,861	639,861
Fund Balance - Beginning of year	1,391,431	1,391,431	1,391,431	-
Fund Balance - End of year	<u>\$ 1,391,431</u>	<u>\$ 1,391,431</u>	<u>\$ 2,031,292</u>	<u>\$ 639,861</u>

Charter Township of Harrison, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Fire Fund Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 4,013,971	\$ 4,113,726	\$ 4,113,710	\$ (16)
Charges for services	242,000	237,000	319,727	82,727
Interest income	50,000	35,000	37,463	2,463
Other	4,000	296,215	299,414	3,199
Transfers from other funds	-	111,530	111,533	3
Total revenue	4,309,971	4,793,471	4,881,847	88,376
Expenditures				
Public safety	4,309,971	4,287,471	4,253,787	33,684
Transfers to other funds	-	506,000	1,011,582	(505,582)
Total expenditures	4,309,971	4,793,471	5,265,369	(471,898)
Net Change in Fund Balance	-	-	(383,522)	(383,522)
Fund Balance - Beginning of year	793,807	793,807	793,807	-
Fund Balance - End of year	<u>\$ 793,807</u>	<u>\$ 793,807</u>	<u>\$ 410,285</u>	<u>\$ (383,522)</u>

Charter Township of Harrison, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Police Fund Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 707,536	\$ 715,396	\$ 715,394	\$ (2)
Interest income	6,000	4,000	3,997	(3)
Total revenue	713,536	719,396	719,391	(5)
Expenditures - Public safety	713,536	719,396	714,159	5,237
Net Change in Fund Balance	-	-	5,232	5,232
Fund Balance - Beginning of year	4,039	4,039	4,039	-
Fund Balance - End of year	<u>\$ 4,039</u>	<u>\$ 4,039</u>	<u>\$ 9,271</u>	<u>\$ 5,232</u>

Charter Township of Harrison, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress December 31, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
Employees' Retirement System						
12/31/98	\$ 8,901,842	\$ 9,334,519	\$ 432,677	95.4	\$ 2,001,643	21.6
12/31/99	9,508,833	10,065,818	556,985	94.5	2,076,516	26.8
12/31/00	10,086,683	10,584,130	497,447	95.3	2,129,790	23.4
12/31/01	10,603,709	11,437,172	833,463	92.7	2,271,123	36.7
12/31/02	10,851,905	12,188,641	1,336,736	89.0	2,544,024	52.5
12/31/03	11,274,486	12,823,259	1,548,773	87.9	2,292,453	67.6
Fire Pension Fund						
12/31/98	10,305,241	10,714,962	409,721	96.2	1,482,110	27.6
12/31/99	11,111,722	11,091,891	(19,831)	100.2	1,636,166	-
12/31/00*	11,916,284	12,028,593	112,309	99.1	1,828,011	6.1
12/31/01	12,483,861	12,291,086	(192,775)	101.6	1,678,054	-
12/31/02	12,816,039	12,921,489	105,450	99.2	1,949,550	5.4
12/31/03	13,592,377	13,706,190	113,813	99.2	2,046,793	5.6

* Revised actuarial assumptions and/or methods and provisions

Charter Township of Harrison, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress (Continued) December 31, 2004

The schedule of employer contributions is as follows:

Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
12/31/99	12/31/98	\$ 315,935	100.0
12/31/00	12/31/99	329,489	100.0
12/31/01	12/31/00	370,395	100.0
12/31/02	12/31/01	437,514	100.0
12/31/03	12/31/02	312,506	100.0
12/31/04	12/31/03	330,751	100.0

Fire Pension Fund

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
12/31/99	12/31/98	\$ 380,264	100.0
12/31/00	12/31/99	362,451	100.0
12/31/01	12/31/00	345,071	100.0
12/31/02	12/31/01	429,662	100.0
12/31/03	12/31/02	437,191	100.0
12/31/04	12/31/03	410,281	100.0

* The required contribution is expressed to the Township as a percentage of payroll.

Charter Township of Harrison, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress (Continued) December 31, 2004

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2003, the latest actuarial valuation date, follows:

Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent, open
Remaining amortization period	28 years
Asset valuation method	Open 4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases*	5.0% - 8.8%
*Includes inflation at	5.0%
Cost of living adjustments:	
AFSCME	None
Supervisory	10% after 5 years; 10% after 10 years

Fire Pension Fund

Actuarial cost method	Entry age
Amortization method	Level percent, open
Remaining amortization period	30 years
Asset valuation method	Open 4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	5.5% - 9.3%
*Includes inflation at	5.5%
Cost of living adjustments	None

Charter Township of Harrison, Michigan

Note to Required Supplemental Information December 31, 2004

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as an "other financing sources (uses)." All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the fund level and is the level of classification detail at which expenditures may not legally exceed appropriations.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Charter Township of Harrison, Michigan incurred expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual
General Fund:		
Township board	\$ 38,401	\$ 39,661
Data processing	5,250	5,480
Engineering	26,000	29,355
Fire Fund - Transfers to other funds	506,000	1,011,582

The unfavorable variances were caused by unanticipated expenditures that became necessary during the year.

Other Supplemental Information

Charter Township of Harrison, Michigan

	Nonmajor Special Revenue Funds				
	Grant	Parks and Recreation	Building Inspections	General	
				Employees Sick and Annual Leave	Firemen's Sick and Annual Leave
Assets					
Cash and investments	\$ 25,387	\$ 19,543	\$ 115,818	\$ -	\$ -
Receivables:					
Special assessments	-	-	-	-	-
Accrued interest	-	-	238	-	-
Due from other funds	-	-	-	-	-
Prepaid expenses and other assets	640	-	579	-	-
Total assets	<u>\$ 26,027</u>	<u>\$ 19,543</u>	<u>\$ 116,635</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 382	\$ -	\$ 4,065	\$ -	\$ -
Accrued and other liabilities	1,663	-	22,140	-	-
Due to other funds	7,256	-	13,640	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	9,301	-	39,845	-	-
Fund Balances					
Reserved for prepaid expenditures	640	-	579	-	-
Unreserved	16,086	19,543	76,211	-	-
Total fund balances	16,726	19,543	76,790	-	-
Total liabilities and fund balances	<u>\$ 26,027</u>	<u>\$ 19,543</u>	<u>\$ 116,635</u>	<u>\$ -</u>	<u>\$ -</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2004**

Nonmajor Debt Service Fund		Nonmajor Capital Projects Funds	
Debt Service Fund	Special Assessments Capital Projects	Special Assessments Revolving	Total Nonmajor Governmental Funds
\$ 602,698	\$ 343,633	\$ -	\$ 1,107,079
522,784	-	-	522,784
964	-	-	1,202
-	-	-	-
-	-	149,321	150,540
\$ 1,126,446	\$ 343,633	\$ 149,321	\$ 1,781,605
\$ -	\$ 99,240	\$ -	\$ 103,687
-	-	-	23,803
-	-	71,143	92,039
459,276	-	-	459,276
459,276	99,240	71,143	678,805
-	-	78,178	79,397
667,170	244,393	-	1,023,403
667,170	244,393	78,178	1,102,800
\$ 1,126,446	\$ 343,633	\$ 149,321	\$ 1,781,605

Charter Township of Harrison, Michigan

	Nonmajor Special Revenue Funds				
				General	
				Employees Sick	Firemen's Sick
	Grant	Parks and Recreation	Building Inspections	and Annual Leave	and Annual Leave
Revenue					
Licenses and permits	\$ -	\$ -	\$ 558,450	\$ -	\$ -
Federal sources	36,925	-	-	-	-
Special assessments	-	-	-	-	-
Interest income	396	236	2,226	19	794
Other	56,162	-	-	-	-
Total revenue	93,483	236	560,676	19	794
Expenditures					
Public safety	-	-	696,171	-	-
Public works	-	-	-	-	-
Community development	141,642	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Other	-	-	-	-	-
Total expenditures	141,642	-	696,171	-	-
Excess of Revenue Over (Under) Expenditures	(48,159)	236	(135,495)	19	794
Other Financing Sources (Uses)					
Proceeds from long-term debt	-	-	-	-	-
Transfers in	-	-	212,285	-	-
Transfers out	-	-	-	(3,170)	(111,533)
Total other financing sources (uses)	-	-	212,285	(3,170)	(111,533)
Net Change in Fund Balances	(48,159)	236	76,790	(3,151)	(110,739)
Fund Balances - Beginning of year	64,885	19,307	-	3,151	110,739
Fund Balances - End of year	<u>\$ 16,726</u>	<u>\$ 19,543</u>	<u>\$ 76,790</u>	<u>\$ -</u>	<u>\$ -</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2004

Nonmajor Capital Projects Funds			
Debt Service Fund	Special Assessment Capital Projects	Special Assessment Revolving	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 558,450
-	-	-	36,925
146,169	-	-	146,169
25,787	2,032	-	31,490
-	656	-	56,818
171,956	2,688	-	829,852
-	-	-	696,171
-	168,752	-	168,752
-	-	-	141,642
152,000	-	-	152,000
80,066	-	-	80,066
1,175	-	-	1,175
233,241	168,752	-	1,239,806
(61,285)	(166,064)	-	(409,954)
-	225,000	-	225,000
150,445	-	-	362,730
-	-	-	(114,703)
150,445	225,000	-	473,027
89,160	58,936	-	63,073
578,010	185,457	78,178	1,039,727
<u>\$ 667,170</u>	<u>\$ 244,393</u>	<u>\$ 78,178</u>	<u>\$ 1,102,800</u>

Charter Township of Harrison, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds December 31, 2004

	Pension and Other Employee Benefit Trust Funds				Agency Funds		
	Firemen's Pension Trust	Employees' Retirement System Trust	Retiree Healthcare Fund	Total	Tax Receiving	Trust and Agency	Total
Assets							
Cash and cash equivalents	\$ 125,203	\$ 677,949	\$ -	\$ 803,152	\$ 745,857	\$ 1,333,777	\$ 2,079,634
Investments:							
U.S. government securities	-	1,760,483	-	1,760,483	-	-	-
Corporate bonds and other securities	2,260,285	2,480,939	-	4,741,224	-	-	-
Corporate and foreign stocks	1,481,365	4,658,914	-	6,140,279	-	-	-
Unit investment trusts	909,118	89,956	-	999,074	-	-	-
Mutual funds	9,506,027	1,545,336	-	11,051,363	-	-	-
Receivables:							
Accrued interest	8,832	45,729	-	54,561	-	2,506	2,506
Employer contributions	-	382,000	146,470	528,470	-	-	-
Total assets	14,290,830	11,641,306	146,470	26,078,606	<u>\$ 745,857</u>	<u>\$ 1,336,283</u>	<u>\$ 2,082,140</u>
Liabilities and Net Assets							
Liabilities							
Due to other governmental units	-	-	-	-	\$ 745,857	\$ 1,560	\$ 747,417
Cash bonds and deposits	-	-	-	-	-	1,334,723	1,334,723
Total liabilities	-	-	-	-	<u>\$ 745,857</u>	<u>\$ 1,336,283</u>	<u>\$ 2,082,140</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 14,290,830</u>	<u>\$ 11,641,306</u>	<u>\$ 146,470</u>	<u>\$ 26,078,606</u>			

Charter Township of Harrison, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds Year Ended December 31, 2004

	Firemen's Pension Trust	Employees' Retirement System Trust	Retiree Healthcare Fund	Total
Additions				
Investment income:				
Interest and dividends	\$ 462,887	\$ 403,735	\$ -	\$ 866,622
Net increase in fair value of investments	632,149	649,582	-	1,281,731
Less investment expenses	-	(77,337)	-	(77,337)
Net investment income	1,095,036	975,980	-	2,071,016
Contributions:				
Employer	410,281	330,751	146,470	887,502
Employees	100,642	93,759	-	194,401
Total contributions	510,923	424,510	146,470	1,081,903
Total additions	1,605,959	1,400,490	146,470	3,152,919
Deductions - Benefit payments	679,496	743,565	-	1,423,061
Net Increase in Net Assets	926,463	656,925	146,470	1,729,858
Net Assets Held in Trust for Pension Benefits				
Beginning of year	13,364,367	10,984,381	-	24,348,748
End of year	<u>\$ 14,290,830</u>	<u>\$ 11,641,306</u>	<u>\$ 146,470</u>	<u>\$ 26,078,606</u>

May 13, 2005

Board of Trustees
Charter Township of Harrison
38151 L'Anse Creuse Road
Harrison Township, MI 48045

Dear Board Members:

In planning and performing our audit of the financial statements of the Charter Township of Harrison for the year ended December 31, 2004, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. This report contains items considered to be reportable conditions, as described above, as well as other items we feel warrant your consideration.

Reconciliation of Bank Accounts - Sound internal controls dictate that bank account reconciliations be prepared on a timely basis for all cash accounts. As you are aware, bank account reconciliations are one of the most important aspects of the internal control environment for the safeguarding of assets and timely identification and correction of errors in the financial records. During the course of our audit, we noted that account reconciliations were not prepared on a timely basis for the Township's pension accounts. We further noted an instance of a pension contribution check that was written in September 2004 which had not been cashed by the pension fund as of the time of our audit. Reconciliation of the pension accounts during the year could have detected this and allowed for reissuance of this check in a timely manner. We recommend that the Township perform timely reconciliation of all bank accounts throughout the year, including review of the reconciliation by a second individual.

In addition to the audit report, we offer following comments and recommendations for your review and consideration regarding matters that we do not consider to be reportable conditions:

FINANCIAL CONDITION AT DECEMBER 31, 2004

During the year ended December 31, 2004, the fund balance of the General Fund increased \$639,861 to a final balance of \$2,031,292. This overall increase in fund balance came as a result of strict monitoring of expenditures throughout the year in response to the reduction of multiple revenue sources. The reduction in state shared revenue and interest rates continues to intensify the challenge faced by the Township. Currently, many municipalities need to analyze several of their processes and determine if they need to be done, and if so, can they be done.



more efficiently. The elimination of certain manual processes and better leveraging the use of technology are vital in government service. With the implementation of a new computer system in fiscal years 2003 and 2004, Harrison Township has responded to this need. However, continued vigilance and dedication is necessary to ensure that the increased efficiencies will translate into financial savings by the Township.

Internal Control Procedures

As part of the Township's process of continuous improvement, we noted the following internal control matters that we would like to bring to your attention for consideration:

- Over the past few years the number of electronic wire transfers made by the Township to effect various transactions, including payroll related payments and investment transactions, has continued to increase. Some of the advantages of wire transfers include the time saved with the instant transfer of funds and a reduction in the cost and administrative time required for paper checks written. One significant disadvantage of wire transfers is that they are often not subject to all of the same internal control procedures as a routine accounts payable check. We recommend that the Township review its internal control policies with respect to wire transfers and ensure that all wire transfers, including payroll, are subjected to review and approval restrictions that are at least as restrictive as those for other disbursements. Procedures related to electronic funds transfers and ACH transactions should be outlined in a policy that is adopted by the Board, as required by Public Act 738. We would be happy to assist the Township in developing such a policy.
- In the interest of efficiency and exchange of information, it is important for Township employees to have access to files and information pertinent to their duties. However, it is also important to maintain security over information kept electronically to ensure it is not manipulated, intentionally or unintentionally. Therefore, we recommend that access to shared file storage devices for a particular department be restricted to employees who work in that department. If necessary, individuals in other departments could be granted read-only access to the files which would serve to protect the integrity of the data. It is our understanding that management has enlisted the assistance of the Township's information technology consultants to address this concern.
- It is our understanding that Township policy and practice provides for Board approval of cash disbursements after the checks have been written and mailed to vendors. While this practice is an acceptable form of review, provided that the budget has been adopted in a legally permissive manner and all of the disbursements relate to budgeted items, a stronger internal control would be to hold the checks until after they have been approved by the Board. This would allow the opportunity for questioned or unusual items to be reviewed for accuracy before the checks are mailed.
- During 2004, the Township initiated the use of credit cards by various employees of the Township for routine purchases below a certain dollar threshold. In the course of our audit testing, we noted that supervisory approval was not consistently obtained during the initial period of their use. We commend the Township for responding to this deficiency by requiring supervisory approval for all credit card purchases and developing a standard form for attaching invoices and other support. In the future, we advise the Township to give careful consideration to the adequacy of internal controls while developing new policies and procedures before the procedures are implemented.

- In difficult economic times, it is essential for municipalities to seek innovative means of financing, which may include special events and fundraising activity. However, it is important to consider the internal controls over funds collected at cash receipt locations outside of the main municipal offices to ensure that they are subjected to the oversight and control of the Township Treasurer.
- The general ledger software used by the Township during the first five months of 2004 could be accessed with an administrative user ID for which multiple staff had the password. This user ID could be used to post journal entries, in which case the originator of the entry could not be identified with certainty. While it is necessary to have such an ID for the software vendor to be able to access the system and to apply software updates, an important aspect of internal control is being able to identify the individual responsible for each entry posted to the Township's records. We recommend that this ID not be used for the posting of entries or any other manipulation of data and that the password to this ID be controlled by a limited number of individuals. It is our understanding that the use of this password was discontinued during May 2004.

ACCOUNTING AND ADMINISTRATIVE MATTERS

- Capital assets, including infrastructure, are a significant part of the Township's financial statements. The accumulation of detailed fixed asset information required significant investment of the Township's resources, both financial and non-financial, during the previous fiscal year. Currently, this information is being maintained in a spreadsheet program, which may be more susceptible to undetected errors (i.e. over-depreciating assets, formula errors, etc). For this reason, we recommend that the data be transferred into a software program specifically designed to account for fixed assets, which includes tracking the depreciation of those assets. We would be pleased to assist the Township in developing a plan for updating and developing capital asset records in an appropriate software suited to this purpose.
- Currently, the Township records revenue related to state and federal grants at the time that the cash payment is received. To the extent that the grants are reimbursement-based, accounts receivable and revenue should be recorded at the time that the related expenditure is made (except in the case of governmental funds, which are required to defer the revenue in instances where the payment is not received within reasonable proximity to year-end as required by GASB Statement #33). Revenue related to grant payments that are received in advance of the related expenditure being made should be deferred until the terms of the grant are met (i.e. the expenditure is made).
- During our balance sheet testing, we noted individual accounts receivable from residents and various accrued liabilities for which the balance has not changed in two or more years. Though these accounts have insignificant balances, if it is not likely that the Township will collect or be required to pay these amounts (depending on whether they are assets or liabilities), we recommend that they be adjusted to reflect a zero balance. We also noted amounts receivable from the State of Michigan related to expenditure reimbursements for a grant program that have been outstanding for more than a year. These amounts should be followed up on to ensure that the Township is properly reimbursed under the terms of the grant agreement.
- As of December 31, 2004, there were multiple individuals employed by the Township who had accumulated vacation time in excess of the limits stipulated by their respective

contracts. Township practice has been to compensate individuals for their entire vacation bank at the time of separation from service, including the amounts that exceed the limit expressed in employee's contract. We recommend that the Township follow the vacation accumulation and longevity pay policies as outlined in the various employment contracts or that the limits and requirements be adjusted in future contracts to reflect the intentions of the Township.

- Internal control over financial reporting dictates that general ledger accounts should be reconciled on a periodic basis, which includes reconciliation to source journal and records. The risk of material errors or omissions going undetected increases significantly when timely reconciliations are not prepared. In addition, timely financial information is not available to the Township Board and management for decision-making purposes. During the year ended December 31, 2004, the Township implemented a new financial accounting and reporting system, including a module for utility billing. After the conversion was made to the new system, the accounts receivable balances were not reconciled to detail customer subsidiary ledgers to verify that the accounts receivable were transferred properly in the new system. This resulted in errors not being detected on a timely basis and a delay in finalizing information for the year-end audit. We recommend that a system of regular account reconciliations, including supervisory review, be established to ensure that reliable financial information is maintained and available on a timely basis.
- Governmental Accounting Standards Board Statement #40 – Deposit and Investment Risk Disclosures (GASB #40), is effective for the Township's December 31, 2005 year-end. GASB #40 amends the Deposit and Investment Risk disclosures previously prescribed by GASB #3. Under GASB #40, the Township must disclose applicable investment risks due to custodial credit risk (originally required by GASB #3) as well as new disclosures for concentration credit risk, interest rate fluctuation risk, and foreign currency risk. In addition, the Township must disclose its investment policy addressing each applicable risk. We encourage you to review your investment policies and update as necessary, to ensure the policies adequately address the risks associated with each type of investment made by the Township. We will work with the Finance Department and provide any guidance requested.

In addition to the internal control and accounting items that occurred during the year under audit, we noted the following situations that occurred after December 31, 2004:

- **Reconciliation of Bank Accounts** - As noted above, the reconciliation of bank accounts is a key component of internal control procedures. During the course of our audit, we noted that bank account and pension fund reconciliations have not been prepared since December 31, 2004 due to a shortage of resources in the finance department. We recommend that the Township perform timely reconciliation of all bank accounts throughout the year, including review of the reconciliation by a second individual.
- **Segregation and Supervision of Duties** - Appropriate segregation of duties is essential to the foundation of sound internal controls. When job responsibilities are properly segregated and there is a system of supervisory review of work performed, the risk of intentional or unintentional error or omission in the accounting records is reduced. To the extent one individual is not involved to a significant degree with the majority of duties in any given area; a system of "checks and balances" is created. Subsequent to the period under audit, there has been a vacancy in the Finance Director position. Though

all of the essential operating functions of the accounting department are still occurring, many of the supervisory tasks (reconciliation of the pension accounts, review of reconciliations of other accounts, and review of source journals, such as payroll) are not being performed on a regular basis, if at all. Until such time as the position is filled, we recommend that the supervisory tasks be divided among other members of the management team.

- **Assignment of Interim Personnel** - When a management position is expected to be vacant for an extended period of time, it may be appropriate to designate an existing employee as the individual filling that position for the interim period. Such decisions should be approved by the Board and all pertinent terms of the arrangement (time period covered, rate of pay, changes to benefits, etc) should be documented formally.

REVENUE SHARING ESTIMATES

As you are aware, the slowdown in the State's economy continues to directly impacting revenue sharing payments. State shared revenue accounts for approximately 24 percent of the Township's Governmental Funds' revenues. Though the State's sales tax collections (the sole source of revenue sharing payments to local units of government) have been near what was expected, the State continues to experience budget problems as a result of disappointing collections of State income tax and single business tax. For the time being, local government has been spared additional revenue sharing cuts for fiscal years 2005 and 2006, as the governor's proposed September 30, 2006 budget holds the state revenue sharing payments at approximately the 2004/2005 levels.

We recommend that the Township continue to evaluate the impact of the revenue sharing reductions as you amend your 2005 budget and plan for your 2006 budget. Updated information can be obtained from the Department of Treasury's web site at <http://www.treas.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at (517) 373-2697. We will continue to update the Township as developments occur.

PRE-FUNDING OF RETIREE HEALTH CARE

As you are aware, Township provides post employment benefits for all eligible employees. The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Post employment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

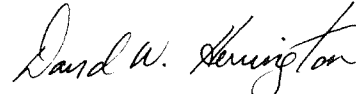
As you know, the promise to provide health care to retirees is very similar to the promise to provide an annual pension check. Similar to the current accounting for the pension systems, the new pronouncement will require the Township to obtain an actuarial valuation of the obligation to provide retiree health care benefits. In addition, the Township's funding status or the progress it has made in accumulating assets to pay for this liability, will be disclosed in the

financial statements. Lastly, the Township will be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability. As you know, the Township has already established a separate fund to account for these benefits and has started to set aside funds for this liability under the provisions Public Act 149. The changes required under GASB 45 will be effective in 2008. We would be happy to assist the Township in adopting the provisions of GASB Statement 45.

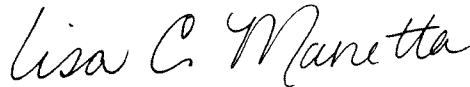
We would like to thank the Board for the opportunity to serve as auditors for the Township. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC



David W. Herrington



Lisa C. Manetta